

**Property and Equipment (P&E) Policy
Office of the Under Secretary of Defense (Acquisition, Technology and
Logistics)**



Military Equipment Valuation (MEV)

**Property and Equipment Policy Office
Policy and Implementation Update for the DPAS CCB
March 18, 2004**



Topics

- Background
- Military Equipment significance
- Military Equipment Valuation Project
- Policies
- Valuations
- Systems Solution

Background

- **Chief Financial Officers Act of 1990 and Federal Financial Management Improvement Act of 1996**
 - Require financial statements and independent audits of the statements
- **April 2003, Federal Accounting Standards Advisory Board (FASAB) amended the “General Property, Plant and Equipment” Accounting Standard**
 - Category “National Defense Equipment” eliminated
 - General PP&E accounting amended to include Military Equipment
 - Capitalization and depreciation **required** for existing Military Equipment and future acquisitions
- **DoD impact**
 - SECDEF initially directed the Department to achieve a clean audit opinion in FY04 – Components required to submit plans and cost estimates
 - August 2003, DODIG reviewed the plans and concluded they were not cost effective to implement
 - *USD(C) revised the goal and directed the Components develop cost effective mid-*

DoD policies for military equipment valuation do not exist and must be developed
DoD systems do not support this requirement but a system solution must be identified

Significance of Military Equipment

| | # Program Offices | Acquisition Cost (000,000) | Net Book Value (NBV) (000,000) |
|------------------|-------------------|-------------------------------|-----------------------------------|
| Army | 225 | \$382,170* | \$94,760* |
| Navy | 260 | \$415,760* | \$132,830* |
| Air Force | 280 | \$222,760* | \$87,650* |
| Defense Agencies | TBD | \$34,530* | \$10,530* |
| | 765 | \$1,125,220* | \$325,770* |

**Based on Bureau of Economic Analysis values*

- There are over 700+ acquisition programs for military equipment
- Estimated acquisition value of Military Equipment is \$1.1 Trillion*!
- GPP&E is the largest line item on the Balance sheet (40% of asset value) and includes:
 - Real Property
 - Personal Property
 - Military property
- ME makes up 80% of GPP&E line item value

Military Equipment Valuation Project

AT&L tasked to work with the Components to produce a transition plan to correct MEV material weakness and identify the mid-range systems solutions by April 2004!

- **Challenges -**

- **Policies**

- Policies do not exist for military equipment valuation; valuation complex

- **Organizations**

- Many process owners; no end-to-end owner
- MEV crosses Acquisition, Logistics, and Accounting/Finance Domains

- **Data**

- Data in legacy systems often incomplete, inaccurate
- Important data is embedded in PDF files; not easily utilized

- **Systems**

- There are many systems; most are not interfaced
- Systems are changing, migrating, sun-setting, developing, integrating, implementing: must consider new and future systems initiatives while pursuing interim solution
- Government furnished property, a component of MEV not recorded in government systems

- **Close scrutiny by auditors, Congress, OMB and FASAB**

- **Aggressive timeline**

Policy

Goal:

- Publish 11 business rules to guide valuation process (Financial Mgt Regs)
- Publish 2 property rules to guide property management (FAR/DFARS)

Current Status:

- Business rules sent to the Services for review and comments received – one issue to resolve
- Property rules being informally coordinated within property community

Plan:

- Financial Business Rules --
 - Resolve comments by the end of February 2004
 - Send to auditors for review and resolve issues
 - Publish agreed to rules by end of June 2004
 - Convert into FMR language (working through USD(C) Acctg Policy)
- Property Accountability Rules –
 - FAR Property Rule
 - Public meeting in April 2004
 - Publish proposed rule in May 2004
 - Publish final rule in October 2004

Financial Business Rules -- The valuation challenge

Military Equipment Valuation - Includes all costs incurred (direct and indirect) to acquire and bring the Military Equipment to a form and location suitable for its intended use.

- Costs that are included:
 - Direct and indirect contractor and sub-contractor costs
 - Materials and parts provided by the Government (direct costs applied to end item)
 - Equipment provided by the Government (fair share of depreciation cost allocated to end-item)
 - Items delivered with the end item (e.g. Manuals)
 - Major modifications when they extend useful life and/or enhance capability
 - Disposal and clean-up costs
 - Other direct costs such as transportation
 - Other indirect costs such as Program Office overhead
- Costs that are generally excluded:
 - R,D,T&E - costs incurred prior to milestone C are not included except in the case of low production, high tech items built with RDT&E funds (e.g. satellites, Stealth aircraft)
 - Spares - should be reported as inventory and expensed
 - Support equipment - may be capitalized separately if it meets capitalization threshold (\$100K)

Acquisition Policy (FAR/DFAR) changes planned

In process (2003):

- DFARS CASE 2003-D081, Unique Identification (UID) and Valuation
 - Requires Contract Line Item Numbers (CLINs) for all Property Delivered to the Government
 - End items must be uniquely identified IAW w/DoD policy
 - Contractors must provide “their fully burdened cost” of end items at time of delivery
 - Fixed Price: based on contract price
 - Cost-Type: based on Contractor’s estimate

In 2004/2005 timeframe

- DFAR Case –Wide Area Workflow to replace manual DD250s
- DFAR Case – RFID
- FAR Sub-Parts 45 and 52 (Government Property) Case – eliminates confusion over who holds the official DoD records for GFP
- DFAR UID for “Legacy” Government Property Case

Valuations - Current

■ Report Parametric Estimates FY03-FY06

- Will use Bureau of Economic Analysis (BEA) data to develop FY03 values for military equipment for DoD financial statements
- This approach has been generally approved by the audit community
- Will transition from BEA data to actual program data in FY04
- Will use BEA data to track progress (metrics) in identifying programs and costs

Bureau Of Economic Analysis nationally recognized source for economic information

- Produces National economic data, such as values for Gross Domestic Product (GDP)
- Also develops values for Government and private fixed assets

Extremely supportive of the Department's efforts to value military equipment

- Pleased that its information is being used to meet this critical requirement
- Recognizes the potential for improving its information

Assisting in "tweaking" database to bring into line with DoD reporting requirements

- Non-ballistic missiles being eliminated
- Traditional General PP&E being eliminated
- Data base being allocated by Component



Valuations - Baseline

Goal:

- Complete 760+ program valuations (multiple systems)

Current Status:

- 118 programs complete
- 172 programs in-process

Plan:

- Finish baseline valuations by September 2006
- Pilot Component valuations in FY 2005
- Turn over updates and new valuations to Components beginning October 2005 with PP&E oversight/support

Valuations -- Types of programs being valued

ARMY

- **Helicopter:** Apache
- **Missiles:** Medium Extended Air Defense System (MEADS), Patriot PAC-3, Joint Land Elevated Netted Sensor System (JLENS), Avenger Air Defense System, Stinger, Sentinel, Surface Launched Advanced Medium Range Air-to-Air Missile (SLAMRAAM)
- **Lasers:** Light and Special Division Interim Sensor (LSDIS), Mobile Tactical High Energy Laser (MTHL)
- **Other:** Joint Tactical Ground Station (JTGS)

NAVY

- **Carriers:** CV-63, CV-64, CVN-65, CV-67, CVN-68 class (68-77), CVNX
- **Amphibious ships:** LHD-1 Class, LPD-17, DDX
- **Submarines:** SSN-21, SSN-637, SSN-688, SSGN-726, SSN-774, Trident II
- **Aircraft:** FA-18/A/B/C/D/E/F

AIR FORCE

- **Bombers:** B-1B, B2
- **Fighters:** F/A 22, F-15, F16, F117 Stealth
- **Airlift:** C-17
- **UAVs:** Predator A, Predator B
- **Trainers:** Joint Primary Aircraft Training System (JPATS), Distributed Mission Program (DMP)
- **Other:** Large Aircraft Infrared Countermeasure (LAIRCM), RC-135, Senior Scout Sensor, Senior Year Sensor, USAFA Glider Replacement Program, Common Low Observable Verification System, Theatre Airborne Reconnaissance Program, US Atomic Energy Detection System, Lease/Support for Special Airlift Mission Aircraft

Systems Solution - Mid-Term

Goal:

- Develop a mid-term solution (likely a system of systems using much of what already exists)
- Develop a long-term solution (that fits with the Business Enterprise Architecture)

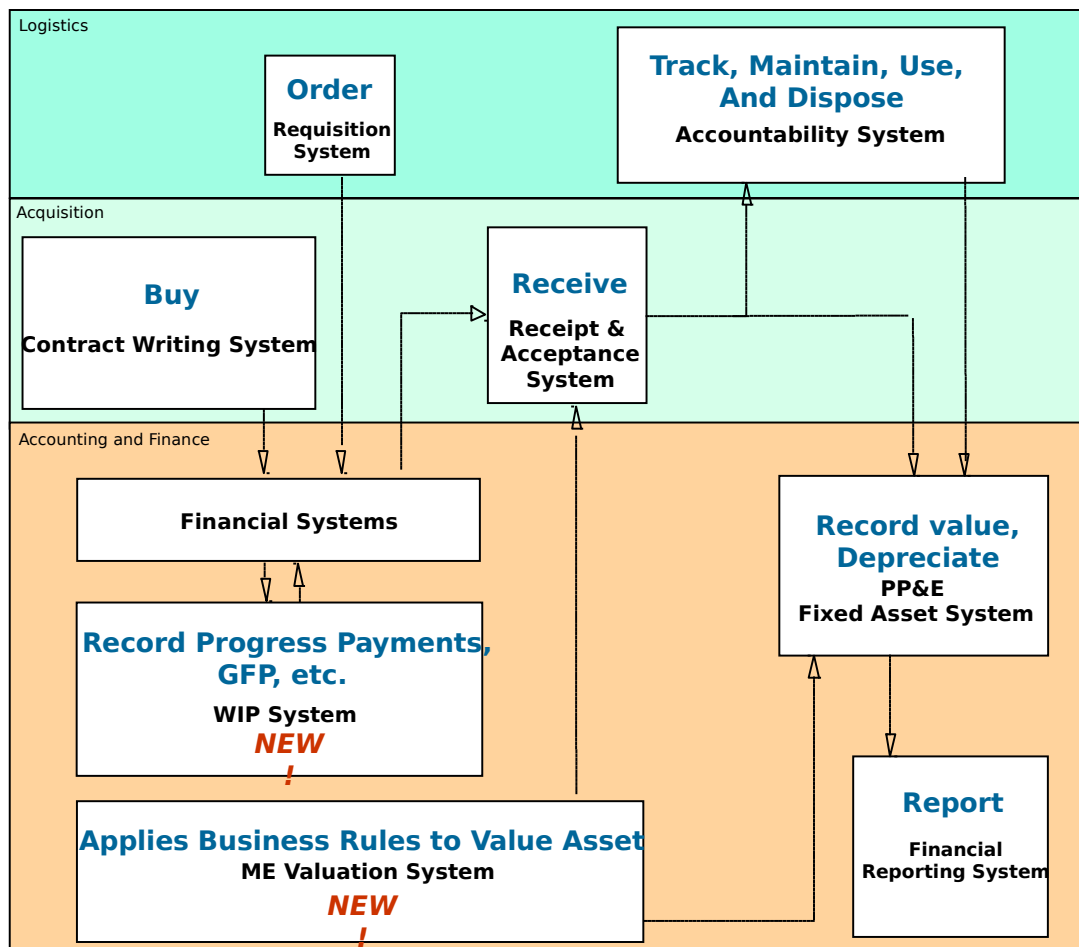
Current Status:

- Mid-term solution
 - Concept drafted and being shared with Acc/Fin, Log, and Acq Domains as well as Services
 - “As is” systems being documented with each Service and appropriate Agency
 - AoA being developed
- Long-term solution
 - “To be” equipment valuation process model and to be incorporated into the business enterprise architecture v2.0

Plan:

- Create plan of actions and milestones by April 2004 (based on analysis of alternatives)
- Identify system change requests by September 2004
- Have mid-term solution in place by September 2006
- Long-term solution in place by 2010

MEV mid-term solution - A system of Systems



Mid-Term ME Valuation Vision

- A system-of-systems, processes and controls (some manual) that will provide compliant valuation, depreciation and financial reporting of Military Equipment utilizing existing systems (as much as possible) in order to reduce cost and expedite delivery.

Required Systems Functionality

- Calculates and records cost data to derive end item full cost* (direct and indirect)
- Records accountability information at the asset level utilizing and leveraging UID
- Identifies and stores GFE/GFM data and identify end item (parent/child)
- Tracks production costs and accumulates in a WIP account; relieves WIP as assets are delivered
- Depreciates asset based on useful life

Mid-term System Solution and impact on DPAS users

Systems Planning

- We are working with Components to identify their overall systems migration plans and which systems will make up their “mid-term” and “objective” system-of-systems” MEV solution set
- We expect different solution sets for each Component but some common systems
- We expect there to common “voids” in the solution set in Valuation and WIP functions
- There is opportunity to create a single enterprise solution to address the “voids”

DPAS

- DPAS will play a role in the solution set but not the same role for each Component
- DPAS will be modified to meet MEV and UID requirements as they are identified and considered cost effective
- DPAS may be used as a pilot to test concepts in near term; Navy also creating a pilot in their ERP system

“To Be” MEV process model issues

Acquisition

- Will need to change the way contracts are written - CLIN/SLIN identification of ME by asset type
- DD250 must record end items value and associated GFP – UID a possible solution

Accounting

- Need to establish standard accounting codes for military equipment
- Need to establish WIP accounts for each program
- Need to develop a valuation decision support tool that can be used collaboratively by the Program Office and Accounting personnel to value military equipment

Logistics

- Need to change language in FAR part 45 on Government furnished equipment to ensure value is recorded in government owned systems

Collaborative approach - AT&L is working with the Components

Near term initiatives

- Develop auditor approved MEV business rules and policies that address HOW to value military equipment
- Visit program offices and determine “baseline value” of existing military equipment
- Identify a mid-term system solution to capture, maintain, calculate and report military equipment values and determine “to be” MEV process.

Other initiatives

- Facilitate change through interim policies, procedures and training

Next steps

- Identify what Components already have or can modify-minimize new reporting requirements
- Build system or systems-Components will accept
- Numerous deliverables to focus on



Military Equipment Web Site

Below is our soon to be web-address

<http://www.acq.osd.mil/me/>

The projected date for going "live" is April 1st